

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
First-Class Package Service
First-Class Package Service Contract 107

Docket No. MC2020-104

Competitive Product Prices
First-Class Package Service Contract 107
(MC2020-104)
Negotiated Service Agreement

Docket No. CP2020-110

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE REQUEST TO ADD
FIRST-CLASS PACKAGE SERVICE CONTRACT 107
TO THE COMPETITIVE PRODUCT LIST

(March 31, 2020)

The Public Representative hereby provides comments pursuant to the Commission's Order Initiating this docket.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Request to add First-Class Package Service Contract 107 to the competitive product list.² The Postal Service's Request includes a Statement of Supporting Justification, a certification of compliance with 39 U.S.C. § 3633(a), and a copy of Governor's Decision No. 19-1. In addition, the Postal Service filed a public version of the contract related to the proposed new product. The contract was also filed in its entirety as a non-public document, along with required financial data.

¹ Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, March 24, 2020 (Notice).

² Request of the United States Postal Service to Add First-Class Package Service Contract 107 to the Competitive Product List and Notice of Filing Materials Under Seal, March 23, 2020 (Request).

The Postal Service states that First-Class Package Service Contract 107 is a competitive product “not of general applicability within the meaning of 39 U.S.C. § 3632(b)(3).” Request at 1. The Postal Service also maintains that the prices and classification underlying the instant contract are supported by Governors’ Decision No. 11-6.³ The Postal Service further asserts that the Statement of Supporting Justification provides support for adding First-Class Package Service Contract 107 to the competitive product list and the compliance of the instant contract with 39 U.S.C. § 3633(a). Request at 2.

The effective date of the instant contract is three (3) business days following the day on which the Commission issues all necessary regulatory approvals. *Id.*, Attachment B at 5. The contract is scheduled to expire three (3) years from the effective date unless either party terminates the contract on 30 days’ prior written notification. *Id.* at 5-6.

COMMENTS

The Public Representative has reviewed the instant contract, the Statement of Supporting Justification, and financial model filed under seal that accompanies the Postal Service’s Request. Based upon that review, the Public Representative concludes that First-Class Package Service Contract 107 should be categorized as a competitive product and added to the competitive product list. In addition, it appears that the instant contract should generate sufficient revenues to cover costs in its first year and thereby satisfy the standards of 39 U.S.C. § 3633(a).

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Postal Service requests that First-Class Package Service Contract 107 be added to the competitive product list. 39 U.S.C. § 3642 requires the Commission to consider whether “the Postal Service exercises sufficient market power that it can effectively set the price of such

³ Decision of the Governors of the United States Postal Service on Establishment of Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, February 7, 2019 (Governors’ Decision No. 19-1).

product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.” 39 U.S.C. § 3642(b)(1). Products over which the Postal Service exercises such powers are categorized as market dominant while all others are categorized as competitive.

The Postal Service makes a number of assertions that address the considerations of section 3642(b)(1). Request, Attachment D, at 2. Based upon these assertions, the Public Representative concludes that the Postal Service’s Request to add First-Class Package Service Contract 107 to the competitive product list is appropriate.

Requirements of 39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service’s competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service. Based upon a review of the financial data, the negotiated prices for Contract 107 should generate sufficient revenues to cover costs during the first year of the contract and therefore meet the requirements of 39 U.S.C. § 3633(a). While Contract 107 is expected to remain in effect for a period of 3 years, during this period, the contract contains a mechanism for the upward annual adjustment of prices.

In addition, the Commission has an opportunity to review the financial results for the instant contract for compliance with 39 U.S.C. § 3633(a) each year of the contract in the Annual Compliance Determination.

The Public Representative respectfully submits the foregoing comments for the Commission’s consideration.

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